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September 21, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Investigation on Distributed Generation, D.T.E 02-38-C

Dear Secretary Cottrell:

In accordance with the procedural schedule, I have enclosed an original and ten (10) copies of the reply comments of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company d/b/a NSTAR Electric in the above-referenced proceeding.

Thank you for your attention to this matter.

Very truly yours,

David S. Rosenzweig

Enclosure

cc: Jesse S. Reyes, Hearing Officer

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Notice of Inquiry Use of Distributed Generation	)	D.T.E. 02-38-C

REPLY COMMENTS OF BOSTON EDISON COMPANY, CAMBRIDGE ELECTRIC LIGHT COMPANY AND COMMONWEALTH ELECTRIC COMPANY d/b/a NSTAR ELECTRIC

I. INTRODUCTION

On June 30, 2006, the Distributed Generation ("DG") Collaborative submitted a 2006 Report to the Department of Telecommunications and Energy (the "Department") proposing various revisions to the Model Interconnection Tariff in order to improve the procedures applicable to bringing cost-effective DG into the marketplace (the "2006 DG Report"). As part of its review of the 2006 DG Report, on August 11, 2006, the Department sought initial comments on the 2006 DG Report by September 7, 2006 and reply comments by September 21, 2006. On September 7, 2006, initial comments were filed by the Massachusetts Division of Energy Resources ("DOER"), the Office of the Attorney General, The Energy Consortium and the Low-Income Weatherization and Fuel Assistance Program Network. In general, these initial comments expressed support for the work performed leading to the 2006 DG Report and for the changes proposed in the Model Interconnection Tariff, as pending with the Department. However, in DOER's initial comments, it requests that the Department commence an investigation into the proper design of standby rates to serve DG and, in support thereof, DOER makes several claims with regard to the effect of the Department-approved standby rates of Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge")

and Commonwealth Electric Company ("Commonwealth") (together, "NSTAR Electric") on DG development in Massachusetts (DOER Initial Comments at 4-8).

In accordance with the procedural schedule, NSTAR Electric files these reply comments. As an initial matter, NSTAR Electric wants to indicate its strong support for the ongoing work of the DG Collaborative, as well as the results compiled in the 2006 DG Report, including the proposed changes to the Model Interconnection Tariff. NSTAR Electric requests that the Department approve the revisions to the Model Interconnection Tariff as proposed.

NSTAR Electric's reply comments focus on DOER's statements regarding the need for a Department investigation into "the unresolved issue of standby rates as a hurdle to the successful implementation of DG" (DOER Initial Comments at 5) and its related claim that NSTAR Electric's cost-based standby rates have served as an improper barrier to DG entry (id. at 6-7). As is discussed in more detail below, NSTAR Electric believes that: (1) the policies adopted and standby rates approved by the Department as part of the comprehensive and broad-based settlement in NSTAR Electric, D.T.E. 03-121 continue to be reasonable and appropriate; (2) the data and conclusions presented by DOER in its initial comments concerning DG development are incomplete and unsupported; and (3) additional investigation by the Department into standby rate design for DGs is, at the present time, unnecessary.

II. DISCUSSION

A. DOER's Claims Regarding DG Development in NSTAR Electric's Service Territory Are Unsupported.

As described below, NSTAR Electric's existing standby rates were established through a broad-based settlement agreement (the "Settlement Agreement") after full evidentiary hearings in NSTAR Electric, D.T.E. 03-121 (2004). Although DOER was a signatory to the Settlement

Agreement,[1] DOER's initial comments in this proceeding raise various concerns regarding NSTAR Electric's standby tariffs.[2] DOER suggests that a Department investigation should be commenced on standby rates because of progress that has been achieved in identifying the benefits of DG, as indicated in the 2006 DG Report (DOER Initial Comments at 6, referencing the 2006 DG Report at 35, 38). Nonetheless, although NSTAR Electric agrees that DG may potentially have benefits in certain installations, as highlighted in the 2006 DG Report, there are a variety of fundamental technical, operational, economic and environmental issues and challenges that require further analysis. 2006 DG Report at 35-36. These issues are worthy of further study, but currently remain unresolved. Indeed, the 2006 DG Report emphasizes that, based upon the study performed by Navigant for the DG Collaborative, at this stage, the benefits of DG deferring distribution investments "do not support the widespread deployment of DG." 2006 DG Report at 36-37. The 2006 DG Report goes on to indicate that it is currently inappropriate to draw broad conclusions about the potential for DG on the basis of distribution investment deferral as a potential source of value. Id. at 37.

That is not to say that DG may not have beneficial characteristics for a distribution company in some limited instances when combined with other distributed energy resources, such as conservation measures and demand-side management (e.g.,, in delaying certain distribution investments, adding diversity to the system or relieving congestion); however, as the Collaborative concluded, these potential benefits are not ubiquitous, require further quantification and analysis, and are subject to location-specific determinations. It is not possible

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1 As a signatory to the Settlement Agreement, DOER is bound by its terms. See D.T.E. 03-121, Settlement Agreement at ¶ 3.2.

2 The Department referenced DOER's support for the Settlement Agreement on the basis of, among other things, "the Settlement supports the policy goals of the Commonwealth." Id. at 34.

at the current time to rely on these potential benefits as a basis to reform NSTAR Electric's standby rates.

DOER goes on to suggest that NSTAR Electric's standby rates are a barrier to "full" DG development (DOER Initial Comments at 6-7). In support of that claim, DOER appends to its comments tables purporting to show the impact of NSTAR Electric's standby rates before and after the implementation of those standby rates, and in comparison to DG development on National Grid's system (id.; see Tables 1 and 2). However, DOER's analysis is flawed for several reasons. First, the breakdown DOER provides in its tables for comparison purposes (i.e., less than 250 kilowatts ("kW"), equal to 250 kW and greater than 250 kW) is meaningless. Because NSTAR Electric's standby tariffs apply only to customers greater than 250 kW, the categories applicable to smaller DG facilities are not relevant to the analysis. Second, the fact that, apparently, National Grid has had two DG installations of greater than 250 kW since January 1, 2005, while NSTAR Electric has had none during the same period[3] is hardly a valid statistical sample and in no way supports the proposition that NSTAR Electric's standby rates are a barrier to DG implementation. Moreover, given that over this period National Grid may have experienced only one or two more large-scale, on-site generation projects in its service territory (even though it has no standby rates in effect) demonstrates that the presence (or absence) of cost-based standby rates has little or no impact on a customer's decision as to whether to install a large generation unit. Third, there are numerous other factors that undoubtedly have contributed to any alleged slowdown in DG development since January 1, 2005 and that have nothing to do with NSTAR Electric's standby rates. These include, but are not limited to, significant fuel price

[3] NSTAR Electric has not endeavored to verify DOER's data, but notes that it appears to be in error given the fact that there is presently a new DG installation of over 5,000 kW recently developed in Cambridge's service territory. NSTAR Electric is also aware of other customers actively considering large-scale, on-site DG facilities in its service territories.

changes, extant market prices of electricity, environmental permitting considerations, scarcity of capital for new investments by customers and general conditions in the economy (e.g., the extent of manufacturing growth, unemployment, inflation and interest rates). NSTAR Electric submits that these considerations, individually and collectively, have had a far more significant impact on the decisions of customers regarding DG than standby rates. Therefore, the conclusions presented by DOER regarding NSTAR Electric's standby rates are not supported.

B. NSTAR Electric's Department-Approved Standby Rates Are Cost Based, Fair and Designed in Accordance with Department Ratemaking Principles.

1. Background on NSTAR Electric's Standby Service Tariffs.

Because the Settlement Agreement in D.T.E. 03-121 was filed after completion of a comprehensive record, including eight days of evidentiary hearings, and because several parties to the case opposed the Settlement Agreement, the Department's order approving the settlement addressed in some detail the issues raised by the opposing parties. In that regard, the Department's consideration of the full panoply of issues surrounding the design of rates to serve DG customers dates back only two years ago. NSTAR Electric, D.T.E. 03-121 (July 23, 2004).

In that case, NSTAR Electric proposed a set of cost-based standby rates to be available to serve on-site generating facilities in the service territories of its three distribution company affiliates. Over two dozen parties, including DG equipment vendors, large and small customers considering DG installations, public and consumer advocates, as well as distribution companies, were actively involved and participated in the review of NSTAR Electric's proposal. After evidentiary hearings were completed in the case, a core group of parties entered into the Settlement Agreement to structure standby rates for NSTAR Electric. The settling parties included, in addition to Boston Edison, Cambridge and Commonwealth, DOER, Associated

Industries of Massachusetts, Conservation Law Foundation, the Joint Supporters[4] and the Solar Energy Business Association of New England (collectively, the "Settling Parties").[5] The Settlement Agreement was the product of extensive negotiations and related compromises among the Settling Parties to develop a set of cost-based, reasonable and fair standby rates to be placed in effect to serve DG customers in the NSTAR Electric service territories.[6]

The Settlement Agreement's tariffs reflect that standby delivery service requires capacity to be immediately available on the distribution company's system to "stand ready" to provide delivery of electricity supply to replace the portion of the customer's internal electric load normally supplied by the customer's own generation unit(s). The standby rate tariffs included three primary price components to recover the cost of providing standby service: (1) a fixed customer charge; (2) a demand charge applied against a established level of "contract demand;" and (3) a supplemental delivery service distribution demand charge, which is applied on an "as used" basis (i.e., not on a contract demand basis) to that portion of a standby customer's load that exceeds the contract demand level.

The fixed contract demand charge reflects the fixed nature of distribution system investments that must be made to provide firm standby distribution service to standby customers.

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4 The Joint Supporters were composed of: Boston Public Schools, Co-Energy America, Inc., National Association of Energy Service Companies, Inc., Siemens Building Technologies, District One, The E Cubed Company, L.L.C., Predicate LLC, Energy Concepts Engineering, PC, Dgsolutions LLC and Pace Law School Energy Project.

5 During the Department's review, support for the Settlement Agreement was also expressed by the Attorney General, other electric distribution companies and KeySpan Energy Delivery New England. NSTAR Electric, D.T.E. 03-121 at 25-28.

6 Those compromises limited the applicability of standby rates based on size and fuel type (e.g., on-site generation powered by renewables resources are not subject to standby rates). In addition, the standby rates include several forms of rate discounts (e.g., reduced contract demand rates, exclusion of transition, conservation and renewables charges) that, if anything, resulted in standby rates that provide economic incentives for DG development. Although NSTAR Electric believes that the Settlement Agreement and the resulting standby rates are reasonable, if they were to be reconsidered at this time, they would inevitably be increased to reflect the total cost to NSTAR Electric for providing the investment needed to serve such customers at a moment's notice.

The standby tariffs provide for an upward or downward adjustment to a customer's contract demand to reflect a customer's measured generation capacity levels.[7] A customer's standby contract demand level will increase if its actual generation exceeds its contract demand in any month. Similarly, under the standby rates, the customer's applicable contract demand is set to the lower of the following:

a. The maximum output of the customer's generation in the current billing month and the prior eleven billing months; or

b. The mutually agreed-upon normal operating capacity of a combination of generating units for a customer having multiple independently operated unit(s) assuming that one or more of such units is normally held in reserve to backup the operation of units that become unavailable.

The standby tariffs are available to customers who otherwise qualify for NSTAR Electric's larger commercial continuous-use rates (e.g., G-3 and T-2) based upon the customer's internal electric load requirements. The standby rates are designed to serve customers that expect NSTAR Electric to deliver electricity to satisfy their internal electric load when the customer's generation unit(s) is not supplying all of the customer's electric load requirements. Customers who do not need or desire such service are not required to take standby service if they are electrically isolated from NSTAR Electric's distribution system.

In the Settlement Agreement, careful attention was devoted to limiting the application of NSTAR Electric's standby tariffs to only the most appropriate circumstances. To qualify for the tariffs, customers with self-generation units must either: (i) satisfy at least 30 percent of the customer's maximum internal electric load from generation unit(s) with a combined nameplate rating greater than 250 kW; or (ii) have installed generation unit(s) with a combined nameplate

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[7] As a key part of the compromise struck among the Settling Parties in the Settlement Agreement, the standby contract demand charges are reduced by 15 percent for Cambridge and Commonwealth, and 20 percent (summer) and 10 percent (winter) for Boston Edison, as compared to the demand charges in the otherwise applicable rate schedule. Id. at 18.

rating greater than 1,000 kW. In addition, notably, customers with "Renewable Energy Technologies," as defined in G.L. c. 40J, § 4E(f)(1), are not subject to NSTAR Electric's standby tariffs.[8] Such customers can purchase standby service under the otherwise applicable service tariffs offered by NSTAR Electric. Therefore, small on-site generating facilities (either in nominal size or in relative comparison to the customer's overall load) and renewable-based generating facilities are expressly exempt from NSTAR Electric's standby rates.

As another example of the careful limiting of NSTAR Electric's standby service tariffs, "grandfathering" was allowed for any customer who began satisfying all, or a portion of, its electric load requirements from generation unit(s) before January 1, 2005. Also, in the case of generation serving a municipal public school, such customers are grandfathered from the applicability of the standby tariffs if: (a) the customer began satisfying all, or a portion of, its internal electric load requirements before January 1, 2006; (b) it had binding financial commitments to install the generation unit(s) on or before December 31, 2004; and (c) its generation unit(s) are less than 1,000 kW in aggregate (id.).

Two other features of the standby tariffs adopted in the Settlement Agreement are worth noting. First, the tariffs provide that NSTAR Electric may provide non-firm standby service upon request by the customer under terms of a separate contract. The contracts will establish the specific terms of interruption on a case-by-case basis, taking into account the operational configuration of the customer and the distribution feeder servicing the customer. According to the terms of the standby tariffs, NSTAR Electric will provide non-firm standby distribution service at the request of the customer in accordance with the otherwise applicable rate schedule

[8] NSTAR Electric's standby tariffs do apply to customers with generation unit(s) fueled a by fuel cell operating primarily on natural gas, if: (a) the combined nameplate rating of the fuel cell(s) is greater than 2,000 kW; or (b) the fuel cell(s) is installed after the combined nameplate rating of all fuel cell(s) to which standby rates would apply installed in the service territories after December 31, 2004, exceeds 10,000 kW.

(to the extent that distribution capacity is available to serve the customer when its generating facilities are not available). Second, the standby tariffs include a provision specifically allowing a customer to request a special contract in lieu of the tariff if the customer wishes to set a standby contract demand that would be different from the level that would otherwise be established under the tariffs. The tariffs require NSTAR Electric to enter into negotiations for such a special contract in good faith and to promptly respond to such requests.

2. Department Approval of the Settlement Agreement.

In approving the Settlement Agreement, the Department made several critical findings. The Department found that the proposed tariffs, including their standby contract demand structure, was not unduly discriminatory to DGs. NSTAR Electric, D.T.E. 03-121, at 46-48. The Department specifically determined that the standby rate structure was reasonable and that, consistent with Department precedent, it would result in the recovery of the underlying cost of having facilities available to serve DG customers when their generators are out of service.[9] Id. at 47. The Department further found that, absent the proposed rate structure, inappropriate cost subsidies would exist where shifting of costs to other customers could result. Id. at 48.

The Department also reviewed favorably the various provisions in the Settlement Agreement that limit the application of NSTAR Electric's standby rates to DG customers. Id. at 43-49, 48-49. It is clear that the Department agreed with the Settling Parties that it was appropriate to exempt from NSTAR Electric's standby rates renewable technologies, small DG installations, DG projects in active development and existing DG customers.

[9] The Department noted that DG customers have the benefit of "insurance" by being able to rely on the distribution company that reserves capacity for the contingency associated with whenever the DG facility may be unavailable. Id. at 46.

C. Further Action by the Department on Standby Rates for DG Is Not Necessary and Premature at the Present Time.

NSTAR Electric maintains that investigation of either NSTAR Electric's standby rates specifically, or standby rates more generally, is not warranted at the present time. As the 2006 DG Report indicated, additional quantification and analysis is needed to develop a better understanding of the benefits of DG to a distribution company's system. 2006 DG Report at 35-38. Moreover, the limited data presented in DOER's comments are lacking to warrant the opening of an investigation. It has been only two years since the Department's approval of NSTAR Electric's standby rates in D.T.E. 03-121.

In addition, there are ongoing efforts at the regional and national level, such as the Electric Power Research Institute and the State Technologies Advancement Collaborative processes, whose objective is to consider and address the whole constellation of issues facing distributed energy resource implementation through development of appropriate policy and legislative recommendations, and potential incentive mechanisms to achieve a so-called "win-win-win" framework. A full proceeding at this time, addressing only standby rates in isolation, would be premature and potentially counterproductive to these ongoing collaborative efforts, in terms of both deflecting attention and drawing away resources that might otherwise be directed to such collaborative processes.

Therefore, NSTAR Electric recommends that the Department continue to defer to the Collaborative and its successor groups in developing additional information that is relevant to the broader analysis of issues facing distributed energy resources, and to allow more time and experience to be amassed before considering whether revisiting standby rates is needed or appropriate.

III. CONCLUSION

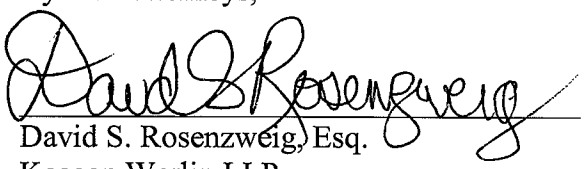
NSTAR Electric welcomes the opportunity to respond to the issues discussed in the initial comments filed in this proceeding. As discussed herein, NSTAR Electric appreciates the benefits of DG and the appropriateness of the proposed revisions to the Model Interconnection Tariffs. As a result, NSTAR Electric supports Department approval of the Model Interconnection Tariffs.

With respect to standby rates, contrary to DOER's claims, there is no reason for the Department to revisit the sound economic and ratemaking principles underlying NSTAR Electric's existing standby rates. They are cost-based rates that fairly recover the cost of distribution facility investments made to serve all customers, including DGs. They avoid subsidies and the inequities that would otherwise result if such costs were shifted to other customers. NSTAR Electric's existing standby rates already have appropriate provisions, inter alia, to exempt renewable facilities, small facilities of less than 250 kW and certain DG installations where there are unique circumstances that allow the DG to control its level of standby contract demand. As such, no further investigation by the Department on standby rate design issues is needed or appropriate at the present time.

Respectfully submitted,

BOSTON EDISON COMPANY
CAMBRIDGE ELECTRIC LIGHT COMPANY
COMMONWEALTH ELECTRIC COMPANY

By their attorneys,



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